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INTRODUCTION: THE YEAR OF TRANSFER

2008 will be a **Year of Transfer** in Iraq. Over the coming year, a number of important milestones will need to be met, including:

- transferring reconstruction planning, management, and funding responsibilities to Iraqi control¹
- continuing to improve the transfer of U.S.-provided reconstruction programs, projects, and assets from U.S. to Iraqi control
- completing the transfer of provincial security responsibilities from Coalition to Iraqi forces

SIGIR will continue to monitor and report on these various issues, with particular emphasis on the status of sustaining U.S.-provided assets. Successfully meeting this sustainment challenge will ensure that the significant investment of U.S. taxpayer dollars in Iraq produces long-term benefits for the Iraqi people.

Three key developments will affect the Year of Transfer:

- Iraq's national income for 2008 could rise well above expectations because of recent increases in oil prices and oil production.
- Iraq's "regions law," scheduled to become effective in mid-April, could significantly alter Iraq's governance and legal structures.
- Successfully surging Iraqi forces could enable Iraq to assume primary civil and military security responsibilities for all 18 provinces.

The success of the continuing relief and reconstruction effort in Iraq depends substantially on the Government of Iraq's (GOI's) capacity to take responsibility for effectively employing its own resources in support of a national recovery plan. Although the GOI now leads this critical effort, the United States continues to provide targeted support for Iraq's national recovery in the security, economic, and political spheres.

Rise in Income

This quarter, Iraq's average oil production reached a post-war quarterly record of 2.38 million barrels per day (MBPD), while average daily exports maintained the previous quarter's record of 1.94 MBPD. Taken together, these developments could cause a significant rise in available revenue for the GOI in 2008 and further underscore the need for the GOI to pass the pending hydrocarbon law.

Iraq's 2008 budget is approximately \$48 billion, an increase of approximately 18% over 2007, with more than 84% funded by oil revenue.² To calculate this year's budget, the GOI estimated an oil price of \$57 per barrel. The U.S. Department of Energy now estimates that the average price for 2008 will be \$85 per barrel. The potential increase in revenue brought by higher oil prices could generate a national income windfall for Iraq, providing new funds for Iraq's relief and reconstruction.



The Government of Iraq has named 2008 the year of reconstruction and anticorruption.

The balance of Iraq's budget is funded by unspent money from previous years that remains in the Development Fund for Iraq (DFI) account and rolls over. The 2008 budget identifies approximately \$6 billion that rolled over from 2007. In addition, the GOI maintains reserves in the Central Bank of Iraq, which the IMF projects to be approximately \$27 billion.³

The possible rise in Iraq's revenue emphasizes the need for the GOI to pursue its fight against corruption with renewed vigor. Prime Minister Nouri al-Maliki has dubbed 2008 the year of reconstruction and anticorruption. A recent three-day GOI conference in Baghdad on fighting corruption is a hopeful sign that the GOI leadership will seriously address this critical issue. Section 3 of this Report updates SIGIR's continuing oversight of U.S. support to Iraq's anticorruption efforts.

Governance in Iraq

On January 12, 2008, Iraq's Council of Representatives met a key governance benchmark

by passing the Justice and Accountability Act. This Act addresses de-Ba'athification reform, providing a regulatory framework within which former members of the Ba'ath Party can reintegrate into Iraq's public life. Many former Ba'ath Party members already have received waivers from the GOI and can work in government or receive pensions,⁴ but the passage of this important legislation institutes a formal process for reintegration and promotes broader reconciliation.

Four pending legislative and constitutional measures could substantially affect governance in Iraq this year:

- the regions law
- the provincial powers law
- the elections law
- Article 140 of the Iraq Constitution

The **regions law**, scheduled to become effective in April, permits one or more of Iraq's provinces to form into a region ruled by a legislative council with substantial legal authority to govern the territory comprising the region. The creation of new regions in Iraq could alter the nation's balance of power, shifting authority away from the central government. For example, if a regional law conflicts with a federal law, the regional law would control, except in matters that are constitutionally vested to federal control. Iraq's Constitution provided regional status to Kurdistan, but the formation of other, similar regions later this year could open up new areas

of federal contention, including the powers to tax, to provide security, and to manage oil and gas assets.

Passage of the long-anticipated **provincial powers law**, an Iraqi benchmark, would clarify the relationships between and among the local, provincial, and federal governments, especially regarding the governance authority of local councils. SIGIR's October 2007 Provincial Reconstruction Team (PRT) audit found that "a key obstacle to developing governance capacity was the lack of a provincial powers law to define the rights and responsibilities of government offices and hold provincial officials accountable for their actions." On February 22, the act is scheduled for a second reading in the Council of Representatives.

Iraq's pending **elections law**, also a benchmark, has long been under development by the GOI. It would mandate new provincial elections that could correct current representational imbalances within certain provincial councils. These imbalances, caused in part by the Sunni boycott of the January 30, 2005 elections, are particularly acute in Diyala and Ninewa provinces. The GOI recently indicated that it will hold "rolling elections" across the country in 2008.

Article 140 of the Iraq Constitution addresses disputes over territorial and mineral interests in Kirkuk and surrounding areas. The new deadline to resolve these disputes is June 30, 2008, by which date the GOI must conduct a census to assess the area's ethnic breakdown and hold

a referendum to assess the will of the citizens regarding their governance.

Resolving the foregoing constitutional and legislative issues will affect how Iraq continues to manage its relief and reconstruction program and, to a lesser extent, how the United States can continue to provide support.

Expanding Iraqi Security Authority

July 2008 is likely to be a watershed month for security in Iraq. By then, the U.S. military surge is expected to be drawing down, and the process for transferring primary security responsibility to Iraq's security forces will be well on its way toward completion. Initially scheduled to be completed in June 2006, the transfer of provincial security responsibilities to the GOI has been postponed several times, and concluding the process is now "conditions based." Shifting the responsibility for provincial security to sovereign Iraqi authority raises important questions about the continuing protection of U.S. personnel supporting the reconstruction effort, especially those deployed in PRTs.

Also by July, the United States and Iraq are expected to have reached agreement on continuing arrangements for longer-term security support. This agreement will address legal immunities and the status and mission of U.S. forces in Iraq.⁵ How the immunity issue is resolved will affect the U.S. capacity to continue to provide effective support.

IRAQ RECONSTRUCTION UPDATE

The GOI has assumed the preponderant burden for funding relief and reconstruction activity in Iraq, and Iraqi authorities thus are taking the lead in making contracting decisions and developing reconstruction initiatives. Consonant with this development, General David Petraeus, the commanding general in Iraq, observed recently that Iraqis should provide solutions to Iraqi problems. The United States supports the implementation of these solutions by providing substantial support for relief and reconstruction. This quarter SIGIR issued seven audits and six inspections reviewing various aspects of this support.

SIGIR Audits

Last year, SIGIR initiated a series of audit reports on significant Iraq relief and reconstruction contracts to examine outcomes and management practices, with an eye toward identifying items for further investigation. Two reports previously issued in this series are:

- SIGIR 07-009, Review of Bechtel's Spending under Its Phase II Iraq Reconstruction Project
- SIGIR 07-016, Interim Review of DynCorp International, LLC, Spending Under Its Contract for the Iraqi Police Training Program

This quarter, SIGIR released two more reports in the series:

- SIGIR 08-010, Outcome, Cost, and Oversight of Iraq Reconstruction Contract W914NS-04-D-0006
- SIGIR 08-004, Outcome, Cost, and Oversight of Reconstruction of Taji Military Base and Baghdad Recruiting Center

In the first, SIGIR reviewed the work performed by **Parsons Delaware, Inc.**, under one of ten design-build construction contracts awarded in 2004 for work on Iraq's infrastructure. The design-build contracts were issued in defined sectors, such as the electric and the water resources sectors. Parsons received the contract for projects in the buildings, health, and education sectors.

Of the 11 construction task orders issued under the \$500 million contract, 3 were completed, and 8 were terminated for convenience with work completed to varying degrees. Parsons successfully completed work to renovate three Iraqi ministerial buildings and to rehabilitate eight maternity and pediatric hospitals, but four task orders to rehabilitate 12 maternity and pediatric hospitals were terminated for the convenience of the government with work incomplete. The most serious problems occurred on the 3 task orders to build 141 primary healthcare



SIGIR reviewed the work performed by Parsons Delaware, Inc., under 2004 contracts for work on Iraq's infrastructure.

centers (PHCs) throughout Iraq. SIGIR previously audited this program, reporting in April 2006 that approximately \$186 million was spent on the PHC project over a two-year period with limited success.

SIGIR's other contract review this quarter looked at reconstruction work performed by **Parsons Infrastructure & Technology Group, Inc.**, under a contract managed by the Air Force Center for Environmental Excellence, now known as the Air Force Center for Engineering and the Environment (AFCEE). The Multi-National Security Transition Command-Iraq (MNSTC-I) used AFCEE to conduct facility construction and repair work at the Taji Military Base and to renovate the Baghdad Recruiting Center. The government expressed satisfaction with the overall project, particularly regarding the oversight work accomplished by AFCEE. Although these two projects cost \$11.1 million more than originally estimated, AFCEE officials justified the increase because of changes in the scope of work and security issues.

The work under this contract was effectively completed, but SIGIR auditors uncovered several problems with the contracting process, including:

- limitations to full-and-open competition in awarding subcontracts, which left the government vulnerable to inflated subcontract prices
- limited oversight of subcontractors
- weak contract-billing systems

SIGIR Inspections

SIGIR has an ongoing series of inspections of projects supporting the Iraqi Security Forces. As part of that series, SIGIR inspectors visited three projects this quarter, identifying one in particular that provided a good example of best practices.

The inspection of the **Erbil Police Academy** determined that the project had many positive indicators suggesting that it will meet contract specifications. The academy was well designed, had a clear scope of work, and benefited from a good quality control program. Perhaps the most uniquely positive factor was the evident involvement and support of local Iraqi officials manifested through a cost-sharing agreement. SIGIR also assessed **Iraqi Army Facilities at Diyanah and Debecha**, finding that these projects evidenced good planning and construction practices. SIGIR's inspection concluded that



The Government of Iraq has designated \$18 billion of the 2008 budget for capital projects related to essential services.

the facilities, when completed, should meet the overall operational and capacity requirements for battalion-sized units.

The Evolving CERP Program

Since its inception in 2003, the Commander's Emergency Response Program (CERP) has played an important role in the U.S. reconstruction effort in Iraq, funding more than 18,000 projects, of which 14,000 are now completed. The Coalition Provisional Authority (CPA) created the CERP to support small-scale humanitarian relief and reconstruction projects. As the Iraq Relief and Reconstruction Fund has drawn down, however, there has been a complementary upward trend in the use of the CERP for larger projects—those valued at \$500,000 or more. Since 2004, projects estimated to cost \$500,000 or more, which amount to less than 3% of all CERP projects, have consumed nearly 37% of CERP funds.⁶

This quarter, SIGIR reviewed the management of larger, more costly CERP projects and found difficulties regarding their transfer to Iraqi control and their subsequent sustainment.

Moreover, the audit found that CERP program guidance provided limited instruction on addressing these issues. SIGIR auditors learned that brigade commanders generally coordinated these large CERP projects quite well through informal channels, and that some commanders had initiated policies and procedures to address transition and sustainment.

Improving Infrastructure Services

Prime Minister Maliki has committed the GOI to improving infrastructure services across Iraq in 2008, and the GOI's budget underscores this priority. The GOI designated \$18 billion of the 2008 budget for capital projects related to essential services, of which more than \$1 billion will be used in Baghdad. Moreover, recent progress in security and increases in national revenue have created an opportunity to upgrade Iraq's essential services.

To further the service improvement effort in Baghdad, the Prime Minister created the Baghdad Essential Services Committee, which is now under the direction of Dr. Ahmed Chalabi.

Among other things, this Committee seeks to settle long-standing conflicts between the Ministry of Oil and the Ministry of Electricity. During the IG's visit to Iraq in November 2007, Dr. Chalabi briefed SIGIR on plans to revitalize the service sector in Baghdad in 2008.

The Progress of the Provincial Reconstruction Teams

SIGIR's previous PRT audits recognized the important potential that these civil-military teams possess for building critical capacity within Iraq's provincial and local governments. But the audits also identified a need to define goals and performance measures for the PRTs and to develop milestones for achieving the goals and meeting these measures. The Office of Provincial Affairs, which oversees the PRT program, is working to address the recommendations. Making PRT objectives more concrete and measurable will enhance decision-making about the future use of PRTs during the Year of Transfer. Moreover, 2008 will be a critical year for the PRTs to develop plans for operating in areas that fall under provincial Iraqi control.

The Role of the International Community

SIGIR's mandate includes the duty to report on international contributions to Iraq. Meeting this mandate has become increasingly difficult because of the challenge in obtaining accurate

data. Iraq has management control over most of its donor relationships, but the GOI has had difficulty accumulating accurate data on donor status. Thus, SIGIR now derives its reporting from information provided by the Department of State (DoS).

As of December 31, 2007, the international community had pledged approximately \$15.826 billion toward the reconstruction of Iraq. Of the total pledges from the international community, \$4.56 billion has been committed, and \$2.49 billion had been disbursed, according to the Development Assistance Database.⁷

The International Compact with Iraq, created in May 2007, defines Iraq's plan for the future of donor assistance and provides benchmarks on which this future assistance can be conditioned. The international community continues to monitor the GOI's implementation of the Compact, and the GOI's success at meeting its benchmarks will shape the support provided by the international community.

This quarter, Iraq completed the early repayment of its entire outstanding IMF obligation of \$470.5 million. The IMF also approved a successor Stand-By Arrangement for Iraq for \$744 million, noting that Iraqi authorities have kept their economic program reasonably on track by tightening monetary policy, appreciating the dinar, and reducing most direct budgetary fuel subsidies.

ANTICORRUPTION EFFORTS

In July 2006 and July 2007, SIGIR issued reports on the U.S. Embassy's support of Iraq's anti-corruption programs,⁸ identifying a lack of coordination among U.S. agencies and urging more forthright leadership to support Iraq's fight against corruption.

SIGIR's July 2006 audit report recommended, among other things, that DoS appoint a senior leader to direct the program and to provide continuity in its program administration.

The July 2007 update report found that limited progress had been made on implementing previous recommendations. Of particular concern, SIGIR found that the Embassy still lacked a comprehensive, integrated plan for supporting Iraq's anticorruption agencies.

This quarter, SIGIR issued another review of the program, finding that the Embassy is taking steps to address identified problems and to implement pending recommendations. Specifically, a new Embassy initiative will create a comprehensive, integrated anticorruption strategy for 2008 to help the GOI and the Iraqi people combat corruption. The Ambassador elevated emphasis on support for anticorruption efforts by deploying new personnel and assets and appointing a new senior-level person as anticorruption coordinator. The coordinator reports to the Deputy Chief of Mission and manages all mission anticorruption support activities. SIGIR will conduct another review this spring to assess progress in implementing these improvements.

SECURITY

Improving security conditions in Iraq this quarter stemmed from the U.S. military's success in implementing its surge strategy. Indeed, virtually all indicators of violent activity declined in 2007, underscoring the overall success of the surge's targeted strategy. The Department of Defense reports that progress continues in increasing the size and role of Iraqi security forces, with more than 441,000 members already trained.

Security Conditions Still Hinder Reconstruction Activities

Despite the palpably improved security climate, violence continues to impede the efforts of agencies working on Iraq's relief and reconstruction. In a January 2008 audit, the Government Accountability Office noted that:

State and USAID efforts are affected by U.S. Embassy restrictions imposed on their movement. Embassy security rules limits, and in some cases bars, U.S. civilian advisors from visiting the ministries outside the Green Zone.⁹

In a similar vein, poor security conditions have impeded SIGIR inspectors' access to project sites. The inability of oversight agencies and other teams to visit projects to ensure quality control, examine contract compliance, and monitor the progress of construction is symptomatic of a larger issue: security conditions, although generally improved, still directly limit the work of managers, operators, and overseers.

Concerned Local Citizen Initiative

Perhaps the most significant security development in 2007 was the creation of the U.S.-supported Concerned Local Citizen groups (CLCs). The CLCs are predominantly Sunni security elements operating in areas previously plagued by sectarian violence. Approximately 70,000 persons have joined the CLC effort, greatly enhancing the pacifying effects of the surge. CERP has funded the CLCs, but this quarter, the U.S. Agency for International Development determined that Community Stabilization Program funds also could be used to support them. Discussions are underway with the GOI to transition financial support for CLCs to Iraq.

LEGISLATIVE DEVELOPMENTS

The Congress recently passed the National Defense Authorization Act (NDAA), expanding SIGIR's jurisdiction and extending SIGIR's tenure. Under the NDAA, SIGIR now has oversight of all reconstruction funds in Iraq, including the ISFF, CERP, and Economic Support Fund. The NDAA also re-defined SIGIR's termination to be 180 days after the point in time at which less than \$250 million in U.S. funds remains to be spent on Iraq's reconstruction.

The Congress approved expanded protections for whistleblowers in Iraq. The governing provision gives contractor employees expanded whistleblower protections when communicating concerns about alleged wrongdoing to SIGIR.

The Senate passed legislation this quarter that implements reforms based on findings and recommendations arising from SIGIR's lessons learned report on contracting.

THE HUMAN TOLL

Although the security situation in Iraq has improved, violence continues to pose a deadly threat.

- The Department of Labor (DoL) reported 43 new death claims this quarter for civilian contractors working on U.S.-funded projects in Iraq. Since Iraq reconstruction began, 1,123 death claims have been filed with DoL. Reported deaths in this category were about 23% below the quarterly average.¹⁰
- DoS reported that seven U.S. civilians died in Iraq this quarter. Since the beginning of the U.S. reconstruction effort, 242 U.S. civilian workers have died in Iraq. Non-military U.S. citizen deaths reported this quarter were 42% below the quarterly average.¹¹
- Two journalists and four media support workers were killed in Iraq this quarter. Since March 2003, 125 journalists and 49 media support workers have been killed in Iraq.¹²
- On January 3, 2008, the UN World Food Programme launched a \$126 million program to feed the most vulnerable of the more than 2.2 million Iraqis displaced by violence. According to UN officials, 750,000 people displaced within Iraq will benefit from the program, as well as more than 360,000 others who fled to Syria.¹³ The Arab League also recently initiated a fund-raising and public awareness campaign to help displaced Iraqis.¹⁴